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Executive Board of the United Nations Entity for Gender Equality and the Empowerment of Women

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Audit matters

Report of the Audit Advisory Committee for the period 1 January to 31 December 2013

Introduction

1. Pursuant to item 30 of the terms of reference of the Audit Advisory Committee, this second report to the Under-Secretary-General/Executive Director of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) provides a summary of the activities undertaken and the advice given by the Audit Advisory Committee in 2013. The present report is made available to the Executive Board, and upon request, the Chairperson presents the report to the Board.

Background

2. In May 2012, the Under-Secretary-General/Executive Director of UN-Women approved the terms of reference of an oversight committee, to be known as the Audit Advisory Committee. The approved terms of reference are available from www.unwomen.org/en/about-us/accountability/audit.

3. Item 1 of the terms of reference describes the Committee as having been established to provide the Under-Secretary-General/Executive Director with independent, external advice, based on good practice, regarding the organization's accountability framework and systems, including risk management. The Committee assists the Head of the Entity in fulfilling her oversight responsibilities in accordance with relevant best practices. The terms of reference are approved by the Under-Secretary-General/Executive Director and may be modified from time to time, as necessary. The Committee has an advisory role and is not a governance body; no language or clauses in the terms of reference are intended to imply otherwise.

4. In September 2012, the Head of UN-Women formally constituted the Audit Advisory Committee to further enhance accountability and "promote proper governance and high ethical standards, as well as the adoption and use by

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management of best practices in risk and financial management" within UN-Women, in accordance with item 2 of the terms of reference.

5. The Under-Secretary-General/Executive Director appointed the following five members: Catherine Bertini (United States of America), William Fowler (United States), Elizabeth MacRae (Canada), Yuen Teen Mak (Singapore) and Frank Sap (Belgium). The Committee as a whole is made up of people with working knowledge of and familiarity with financial and programme matters, accounting, governance, internal audit and investigation, external audit, internal control and risk management practices and principles and United Nations intergovernmental and normative work and processes.

6. In accordance with items 6 and 7 of the terms of reference, all Committee members are independent and external to UN-Women. Additionally, Committee members complete an annual declaration of independence for the Under-Secretary-General/Executive Director that assures the transparency of Committee members in fulfilling their roles, without any interests being compromised.

Audit Advisory Committee activities and advice as at 31 December 2013

7. In 2013, the Audit Advisory Committee held four face-to-face meetings, on 21 and 22 January, from 23 to 25 April, on 9 and 10 July, and on 19 and 20 November, and participated in three teleconference calls, on 10 May, 22 July and 5 September. UN-Women participants in the meetings included the Under-Secretary-General/Executive Director, the two Deputy Executive Directors and relevant programme and operational senior management. As required, the Committee also met without management present and had separate in camera meetings with the Under-Secretary-General/Executive Director, the Board of Auditors and the Director of the Office of Audit and Investigations of the United Nations Development Programme (UNDP), which is the Office responsible for the UN-Women Audit Unit. The Chairperson of the Committee also participated in the second regular session of the Executive Board, in September 2013. In addition to formal meetings, Committee members continued their internal consultations and deliberations, document review and provision of advice to UN-Women management via telephone and e-mail interaction.

8. Minutes from the meetings were prepared and approved. The Committee interacts regularly with the Under-Secretary-General/Executive Director during each meeting and formally reports on its deliberations after each on-site meeting.

Board of Auditors

9. The Committee met regularly with the Board of Auditors to share relevant information and understand the strategies implemented to ensure overall audit coverage for UN-Women, which includes the work performed by the UN-Women Audit Unit. The Committee had substantive discussions with representatives of the Board of Auditors at each of its in-person meetings.

10. The Committee has regularly been updated on the status of implementation of the recommendations contained in the reports of the Board of Auditors and supports efforts by UN-Women to deal with outstanding issues, particularly in ensuring that

underlying systemic and strategic issues are addressed in a consistent and ongoing manner.

Organizational challenges and decentralization

11. The Committee has been briefed extensively by senior management on the organizational challenges that UN-Women has experienced since its formal inception in 2011, when four entities of the United Nations system were combined to create UN-Women. The challenges include: institution-building to support one new cohesive organization with a distinct culture; the implementation of a regional architecture as part of the transition of UN-Women from a centralized to a decentralized organization by the end of 2013; and change management to build internal capacity through new and revised systems and business processes and human resource recruitment, deployment and development.

12. The Committee notes that, as at December 2013, the establishment of the regional architecture was ongoing, as was the decentralization of decision-making from headquarters to field offices. The Committee understands that regional and other field offices need the capacity to exercise authority in a decentralized work environment and notes that the requisite controls must be in place both at headquarters and in the field to monitor and mitigate operational and strategic risks. The Committee appreciates that UN-Women must be prudent in ensuring that the appropriate capacity, internal control frameworks and accountability mechanisms exist in field offices, but encourages UN-Women to move expeditiously in rolling out the regional architecture.

13. In view of the fact that the implementation of the regional architecture is one of the Entity's organizational priorities, the Committee underscores the importance of using key performance indicators to assess and monitor the progress of the regional roll-out, which continues in 2014; to identify and address risks encountered and make any necessary adjustments; and to report on whether the results and benefits expected by decentralization are realized.

14. The Committee also understands the challenges of ensuring an appropriate complement of staff is in place in each of the field offices and of providing the necessary training and learning, to ensure that the appropriate controls and risk management strategies are implemented throughout the organization. It may be helpful in this regard for UN-Women to introduce a system of talent management and succession planning and to develop and implement a rotation and mobility policy.

15. The Committee understands the potential opportunities that the regional architecture will create to strengthen the normative role of UN-Women at the country level, as well as the increased linkages for inter-agency coordination and resource mobilization at the local level. The Committee also notes the challenges regarding resource mobilization in 2012 and 2013. Without increased contributions, the Entity's resources may not be sufficient to carry out its mandate. The Committee encourages UN-Women to develop a comprehensive resource mobilization strategy and plan, particularly for non-core resource mobilization.

16. The Committee noted that the projected results for 2013 lagged behind the budget set for 2012-2013. The Committee agrees with UN-Women that, particularly for non-core resources, the pace of resource mobilization needs to be accelerated

and that delivery through implementing partners needs to be more effective. The Committee also understands that UN-Women needs to be realistic and demand-driven in implementing its regional architecture and country programmes, particularly in view of the resource mobilization challenges noted in paragraph 15 of the present report.

Enterprise risk management

17. The Committee understands that there is an informal risk management process in place within UN-Women, which includes risk identification and mitigation. UN-Women is also drafting an enterprise risk management policy and collaborating with other entities of the United Nations on their lessons learned in implementing strategies and processes for enterprise risk management. The Committee supports UN-Women efforts to date and underscores the importance of developing and implementing a formal integrated risk management strategy that focuses on results and identifies and addresses risk exposure throughout the Entity and in its external relationships.

Evaluation function

18. The Committee supports the work accomplished to date in resourcing the evaluation function and developing mechanisms and guidance for implementing the evaluation policy and building evaluation capacity. The Committee stresses the importance of appropriately resourcing the evaluation function both centrally and decentrally, and of ensuring that evaluation results reflect achievements expected in the strategic plan and are used to increase knowledge and improve performance results. In this respect, it is particularly important that the annual evaluation report is practical, realistic and usable and reflects clearly how the programmes have been effective.

Internal audit

19. The Committee recognizes that UN-Women entered into a service level agreement with the Office of Internal Audit and Investigations of UNDP in December 2011 to conduct internal audits and investigations on behalf of UN-Women and notes that a further agreement, for an additional two years, was entered into in December 2013. The Committee suggests that UN-Women monitor closely whether value-for-money is obtained through outsourcing internal auditing and consider other possible delivery options, if fiscally and operationally feasible.

20. The Committee understands that the UN-Women Audit Unit established through the service level agreement is operationally independent from UNDP. However, the Committee remains concerned that there may be potential conflicts of interest because UNDP undertakes some of the administrative functions of UN-Women through other service level agreements, for example, managing its treasury services. As a compensating control and in order to ensure transparency, it is important that there is an independent organizational focal point in UN-Women to oversee internal audit activities and results. In addition, the Director of Audit and Investigations needs to ensure regular reporting to and ongoing communication with senior management of UN-Women.

21. The Committee reviewed the annual workplan for the UN-Women Audit Unit for 2013 and recommended the approval in principle of the plan, with some

suggested clarifications. The Committee was regularly briefed on the results of the various audit engagements performed during 2013, including systemic issues of interest.

22. The Committee noted that the resource level for the UN-Women Audit Unit was increased for 2013 and supports the continuing strengthening of the internal audit services of UN-Women in order to ensure sufficiency of audit coverage in future audit plans, particularly in view of the roll out of the regional architecture and decentralization. It is also important to ensure that there is sufficient internal audit capacity, so as the Board of Auditors can rely on the internal audit work performed.

23. The Committee reviewed the annual workplan for the UN-Women Audit Unit for 2014 and suggested some revisions and additional coverage in view of the increased resource level in the Unit. The Committee reiterates the importance of regularly monitoring and assessing resource levels and the capacity of the UN-Women Audit Unit to ensure that they are appropriate and sufficient to address the overall assurance needs of UN-Women.

24. The Committee again notes Executive Board decision 2012/10, adopted on 30 November 2012 (see UNW/2012/16), on the disclosure of internal audit reports, and the corresponding document on the standard operating procedures for applying the policy (Standard Operating Procedures No. 860 of the Office of Audit and Investigations). The Committee reiterates its recommendation that UN-Women develop and implement a communication strategy to ensure that audit results, recommendations and management actions are promulgated in an understandable and transparent manner, particularly when systemic and recurring issues are identified in internal audit reports.

Investigations

25. The Committee received regular updates from the Office of Audit and Investigations, presenting an overview of the investigation caseload, the breakdown of the nature of the allegations and the status of the cases. The Committee notes the effort to raise awareness of the fraud "hotline" and the significant increase in the number of cases handled by the Office in 2013 compared to 2012.

Financial statements

26. The Committee reviewed and suggested refinements to the model financial statements, drafted to identify the disclosure requirements for UN-Women, and the draft financial report for the year ended 31 December 2012. These were the Entity's first set of financial statements prepared in accordance with the International Public Sector Accounting Standards (IPSAS). The adoption of IPSAS required significant changes to be made to the accounting policies previously followed by UN-Women. The Committee notes the rigorous planning by UN-Women in order to fully implement IPSAS within a short time frame. UN-Women received an unqualified audit opinion from the Board of Auditors and the Committee commends UN-Women on this significant achievement.

Relationship with the United Nations Development Programme

27. The Committee is aware that UN-Women has entered into service level agreements with UNDP to undertake some of the Entity's administrative functions,

for example, managing its treasury services and investment portfolio. UN-Women remains accountable for the overall performance of the Entity and the Committee therefore reiterates the importance of UN-Women implementing the relevant processes and procedures to ensure that any such outsourced functions are performed appropriately. In the case of its investment portfolio, UN-Women may also wish to evaluate whether a specialized investment company may be a preferred option to manage the portfolio and provide investment advice, in order to optimize returns.

Strategic plan, 2014-2017

28. The Committee was regularly updated on the process to develop, and the contents of, the updated strategic plan, 2014-2017 (UNW/2013/6). The Committee understands that the updated strategic plan is more strongly aligned with UN-Women outputs, the management results framework is equivalent to the new term organizational effectiveness and efficiency results, and UN-Women is working collaboratively with other partners in the United Nations system to harmonize its approach to strategic planning.

Final considerations

29. The Audit Advisory Committee of UN-Women has reviewed the report on internal audit and investigation activities for the period 1 January to 31 December 2013 (UNW/2014/4), to be submitted to the Executive Board at its annual session, taken note of the significant internal audit results identified, and concurs with its contents.

30. The Committee expresses support for the continued strengthening of internal control and accountability processes at UN-Women.

Annex

Management response to the report of the Audit Advisory Committee

1. The management of UN-Women acknowledges the second report of the Audit Advisory Committee and expresses its appreciation to the distinguished members of the Committee for their dedication to the organization's mandate. The pursuit of gender equality, women's rights and women's empowerment is regarded by the Entity as the defining challenge of the twenty-first century. UN-Women commenced its operations in 2011 and is committed to "changing the game" for women and girls globally.

Board of Auditors

2. UN-Women management values the recommendations by the Audit Advisory Committee regarding consistently addressing the Board of Auditors' external audit observations with conclusive actions, particularly where they concern underlying systemic and strategic issues. Considerable progress in the implementation of audit recommendations has been achieved, as indicated in the report of the Board of Auditors (A/68/5/Add.13 and Corr. 1 and 2) for the year ended 31 December 2012. As at 31 December 2013, 23 of the 28 audit recommendations issued for 2011 had been implemented, while 5 remained in progress. Similarly, 4 of the 17 audit recommendations issued for 2012 have been accomplished and action plans have been developed to address the remaining 13 audit recommendations. UN-Women management commits to consistently monitoring the implementation of the external audit recommendations made by the Board of Auditors.

Organizational challenges and decentralization

3. The Entity's management concurs with the Committee's recommendation regarding assessing the risks and realization of benefits periodically, as UN-Women matures as an organization. Throughout 2013, UN-Women continued to implement the roll-out of the regional architecture and advanced the decentralization of decision-making to regional and country offices in accordance with approved internal control frameworks and delegations of authority.

4. In January 2014, UN-Women completed the establishment of six regional offices and its regional architecture with the opening of the regional office in Istanbul, Turkey for the Europe and Central Asia region. UN-Women management agrees with the Committee's observation regarding the importance of monitoring the progress of the roll-out of the regional architecture, has reported to the Executive Board on the progress achieved to date and will continue to do so through its annual report. UN-Women management will continue to address risks and make adjustments as necessary. The performance indicators shared with the Executive Board will be one means for tracking progress and results of the new architecture, along with the Entity's standard corporate monitoring in areas such as programme delivery and recruitment. The 12 performance indicators cover three areas: (a) the operationalization of regional offices; (b) stronger, more responsive country offices; and (c) improved efficiency and effectiveness of UN-Women.

5. Institution-building, recruitment and development of staff remains a key focus area for UN-Women. Management concurs with the Committee's recommendations on introducing rotation/mobility policies, talent management and succession

planning. With the appointment of the new Director of Human Resources for UN-Women in March 2014, such initiatives will be given the required emphasis and will build on preparatory work already undertaken.

6. Resource mobilization is the top organizational priority for UN-Women and a significant increase in effort is required, especially in raising non-core resources. During 2013, the Entity's strategy to widen the donor base and to increase the number of Member States contributing more than $10 million in core contributions was successful. UN-Women reported a respectable increase of 33 per cent in core contributions, to $152 million, from $114 million for 2012. UN-Women has budgeted to raise $340 million in core contributions in 2014-2015 and will continue its focus in pursuing this growth strategy.

7. Similarly, strategies for raising non-core resources are being developed to achieve the $350 million budget for 2014/2015. Most field offices are implementing resource mobilization action plans, outlining the various opportunities at the local level. Staff members at headquarters are providing resource mobilization training to regional and country offices, while regional offices are increasingly providing resource mobilization support to country offices. UN-Women representatives are engaging with donor representatives at the country level, where most decisions on non-core resource mobilization are taken. On several occasions, the strategic notes/annual workplans of country offices have been used as a resource mobilization tool.

8. UN-Women management values the Committee's support in driving resource mobilization strategies to reach the goals set in the strategic plan, 2014-2017.

Enterprise risk management

9. UN-Women management acknowledges the Committee's recommendation on the appropriate operational risk modalities being in place at the country office, regional office and headquarters levels. UN-Women is formalizing and enhancing its enterprise risk management approach and processes by collaborating with other entities of the United Nations on lessons learned.

Evaluation function

10. UN-Women management concurs with the Committee's observations and asserts the strategic relevance of its evaluation function in strengthening the effectiveness and efficiency of programming capacity at the national level. UN-Women is instituting a quality assurance system to ensure that offices have the adequate financial and human resources to carry out the evaluation plans. In November 2013, UN-Women appointed its first Director of Evaluations, who is a recognized international authority in equity-focused and gender-responsive evaluations. Under the leadership of the new Director, UN-Women is being positioned as a global partner with access, through EvalPartners, to more than 30 members, including the United Nations Evaluation Group, UNDP and the United Nations Children's Fund, the Network on Development Evaluation of the Development Assistance Committee of the Organization for Economic Cooperation and Development (EvalNet), several governments, civil society organizations, multilateral development banks, private foundations and academia.

11. UN-Women continues to play a prominent role in United Nations system-wide coordination and knowledge management on gender-responsive evaluations. The Entity expanded the portal on evaluation of gender equality, engaged in joint evaluations and innovative partnerships, such as the EvalPartners initiative, and promoted the use of evaluation indicators through the System-wide Action Plan on Gender Equality and the Empowerment of Women (see also UNW/2014/3).

Internal audit and investigations

12. UN-Women management notes the Committee's caution in continuously evaluating the cost-benefit relationship in outsourcing arrangements with UNDP. Management acknowledges the Committee's concerns regarding potential conflicts of interests with UNDP performing the internal audit function of UN-Women as well as other outsourced functions, particularly treasury, information and communications technology systems and the administration of payroll, benefits and entitlements. Management is committed to monitoring the value-for-money benefits and will conduct feasibility studies to evaluate different options for the outsourced functions, as the organization matures.

13. UN-Women management appreciates the Committee's support for the increase in the internal audit capacity during 2013 and the corresponding amendments to the audit workplan. Quarterly briefings are held between the Under-Secretary-General/Executive Director of UN-Women and the Director of Audit and Investigations of UNDP.

14. UN-Women management acknowledges the Committee's recommendation concerning developing communication strategies and has taken action in communicating with its donors in response to specific internal audit reports published under the public disclosure policy, effective 1 December 2012.

15. UN-Women management notes the Committee's appreciation for the regular updates provided on the investigation caseload and for the efforts of UN-Women to raise awareness of the fraud "hotline".

Financial statements

16. UN-Women management is pleased that the Committee noted the Entity's implementation of IPSAS as rigorously planned and executed within a short time frame. The Board of Auditors acknowledged that the "successful implementation of the IPSAS accounting framework was a major achievement confirming strong commitment by management, especially given the relative newness of the organization and the state of readiness previously reported by the Board" (see A/68/5/Add.13, chap. II).

Relationship with the United Nations Development Programme

17. UN-Women management agrees with the Committee's observation on the importance of monitoring the functions outsourced to UNDP. For the key areas undertaken by UNDP on behalf of UN-Women, the Management and Administration Division has put in place the following controls to ensure that outsourced functions are performed appropriately: (a) concerning treasury services, UN-Women has agreed to the investment policy and guidelines of UNDP and holds quarterly investment review meetings with UNDP on its investments; (b) concerning

payments and bank reconciliations, UN-Women reviews the bank reconciliations prepared by UNDP, on a monthly basis; and (c) concerning human resources, UN-Women uses a payroll validation tool to check the information submitted to UNDP for the processing of payroll for international Professional and General Service staff based at headquarters. In addition, UN-Women received a certification letter from the Deputy Assistant Administrator of UNDP for all transactions undertaken on behalf of UN-Women for the year ended 31 December 2012.

Strategic plan, 2014-2017

18. UN-Women management appreciates the Committee's support in developing the updated strategic plan, 2014-2017 (UNW/2013/6), which is harmonized in its cost classifications and time frames with those of the funds and programmes of the United Nations. UN-Women continues its collaboration with partners within and outside the United Nations system to achieve its strategic objectives in advancing gender equality and promoting the empowerment of women and girls.